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Approved For Release 2003/11/04 : CIA-RDP79T00975A000300560001-6

2 September 1951

[redacted]
Copy No. C1-19

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CURRENT INTELLIGENCE BULLETIN

DOCUMENT NO. 89
NO CHANGE IN CLASS.

DECLASSIFIED

CLASS. CHANGED TO: TS S C 2009

NEXT REVIEW DATE:

AUTH: HR 70-2

DATE: 17-17-0 REVIEWER [redacted]

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Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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State Department review completed

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GENERAL

25X1A 1. British ambassador recommends headquarters outside Egypt for proposed Mediterranean command:

The British Ambassador to Egypt has recommended to his government that the headquarters of the proposed Allied command for the eastern Mediterranean should be located outside Egypt,

since its location there would prejudice the chances of obtaining Egypt's participation in the command structure.

Comment: One of the main reasons which led the British to propose this combined regional command, which would initially include the UK, the US, France, Turkey and -- they hope -- Egypt, was their belief that Egyptian nationalist sentiment would prove less hostile to granting military facilities to such a multinational organization than to Britain alone. Available evidence suggests, however, that the current mood in Egypt would preclude agreement not merely to the command headquarters but to the stationing at present of any foreign troops on Egyptian soil.

25X1A 2. Egyptian diplomats make last minute effort to postpone UN action on Canal issue:

Both the Egyptian Ambassador and Egypt's Chief UN Delegate have approached US officials with the aim of developing a new formula for settling the Suez Canal dispute, now before the UN Security Council. Both men have asked the US to help in postponing the UNSC action on this issue.

The UN Delegate frankly expressed his concern over the unexpected support the USSR gave the Egyptian request for delay. He suggested that this embarrassing situation be resolved by further postponement on the pretext of appointing a committee or individual to investigate the matter further.

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In answer to the US comment that the best way to counter the Soviet move would be for Egypt to lift the restrictions, the Egyptian Delegate intimated that internal political problems would prevent Egypt from complying with such a suggestion. He then warned that the proposed UN resolution would "further prejudice the US position in the entire Arab world."

Comment: Egyptian desire to avoid an adverse Security Council decision on the Canal issue has not been sufficiently strong to induce it to make a compromise offer which might be acceptable. While some Egyptian leaders recognize the dangers of Soviet support, there are other nationalists who agree with the Foreign Minister, who has been quoted as welcoming the Soviet maneuver as "a happy surprise."

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4. Macao prepares for increased trade with Communists:

Macao officials are planning to make the Portuguese colony a more important transit base for strategic shipments to the Communists. The Macao government has pur-

chased three ships and intends to acquire three more for direct trade with Japan; four other vessels will be chartered to step up service with Portuguese Timor; and quick turn-around is planned for vessels bringing petroleum from Thailand and the Philippines.

P. J. Lobo, Macao's Director of Economics, is personally connected with these deals, at the same time officially disclaiming ability to prevent the traffic. Twelve trade advisers from Peiping were recently added to the staff of the Nan Kwang Company, the principal Communist purchasing agency in Macao.

Comment: Communist interest in utilizing Macao as a smuggling base has become particularly manifest since Hong Kong broadened its export control program last June. Petroleum appears currently to be the principal item in this traffic, but truck tires, crude rubber, metals, motor vehicles, auto parts, radio equipment, and on occasion munitions are also handled.

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NEAR EAST

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5. Afghanistan and Iran reach oil agreement:

[Redacted]

Agreement between Iran and Afghanistan for the delivery of oil to Afghanistan has been formally announced in Kabul. The US Embassy in Afghanistan, in expressing doubt of the feasibility of overland transportation, points out that the roads linking Iran with Afghanistan are inadequate for regular and sizeable oil shipments.

Comment: Both countries are impelled by obvious propaganda motives. Afghanistan wishes to free itself from dependency upon Pakistan and the USSR. Iran needs to sell oil. Afghanistan's annual oil consumption, however, is equivalent to only a small fraction of one day's normal production of the Abadan refinery.

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[Redacted]

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WESTERN EUROPE

25X1A 7. French concurrence in Germany's admission to NATO is foreseen for 1952:

[Redacted]

According to a report from the US Embassy in London, a "responsible official" of the French Foreign Office has stated that he and some of his colleagues are personally convinced that Germany's membership in NATO is both inevitable and desirable.

These officials emphasize, however, that the worst way of accomplishing this would be for the US or UK to raise the issue with the French before or at the time when the Germans agree to a defense contribution. In the opinion of the source, French public opinion would be able to accept German membership in NATO about six months after that date, or about mid-1952.

Comment: This is the first indication that any French officials are prepared to consider German admission to NATO at a definite future date. In all aspects of the German problem, French officials stress the importance of careful timing in order to insure that German commitments to the common defense will induce a further swing of French public opinion in favor of new steps toward German equality. A relatively tolerant attitude toward Germany has been developing in France since July 1949, when Schuman informed the Assembly that Germany's participation in NATO was "unthinkable" and a question that "can never come up now or even at a later date."

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25X1A 8. Schuman adds Moroccan question to Washington agenda:

[Redacted]

French Foreign Minister Schuman plans to add the question of Morocco to the agenda for his bilateral talks with Secretary Acheson. A memorandum is now being drafted in the Foreign Office outlining France's policies and practices in Morocco.

Because the Foreign Office believes that US officials want future French policy to be built around the nationalist Istiqlal party, the memorandum will disparage the party and point out that Istiqlal rule would result only in civil war and chaos. The French will draw heavily on the paradox of US and Communist support for Istiqlal, and stress the "advantages to the West of a cooperative Morocco in case of war."

The memorandum will not contain an overall plan for the progressive independence of French North Africa, a policy long recommended by US diplomats.

Comment: Sensitivity of the French over US influence in their Moroccan protectorate has become an obsession. US diplomats have not advocated that French policy be built around the Istiqlal party, which not only does not have US support but also has rejected all Communist overtures.

The US has repeatedly urged that the French adopt a concrete program looking toward greater autonomy for Morocco--a policy similar to the granting of independence to the Philippines. These recommendations have been rejected by the French.

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9. French Premier considers coal shortage serious problem:

[Redacted]

French Premier Pleven has told Ambassador Bruce and Mr. Harriman that the general European coal shortage poses the greatest economic problem currently facing France.

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The French feel that solutions for this problem should be sought in the coming Foreign Ministers' talks. One possibility would be to finance coal shipments from the US out of military assistance funds to the extent that the coal is to be used in the manufacture of military items.

Comment: According to official French estimates of 1 July, France will produce about 55 million metric tons of coal in 1951 and obtain 5 or 6 million tons from the Saar. The balance of French import needs for 1951 is estimated at over 15 million tons, of which the traditional suppliers in Europe cannot furnish more than 9 million tons. Of the remaining gap of over 6 million tons, for which France looks to the US, less than one-fourth was obtained from the US in the first half of 1951. Meanwhile French steel production is at only 80 percent of capacity.

The Office of ECA's Special Representative in Paris estimates that foreign demands upon the US for coal in fiscal year 1952 might rise as high as 30 million tons at a cost representing about three-fourths of total US foreign economic aid.

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